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ABSTRACT

This glimpse of America's economic situation in the year 2000 predicts that four key trends will shape the last years of the twentieth century: (1) the American economy should grow at a relatively healthy pace; (2) U.S. manufacturing will be a much smaller share of the economy in the year 2000; (3) the workforce will grow slowly, becoming older, more female, and more disadvantaged; and (4) the new jobs in service industries will demand much higher skill levels. These trends in the emerging economy suggest six policy challenges that will deserve the greatest attention of American twenty-first century policymakers: (1) stimulating balanced world growth; (2) accelerating productivity increases in service industries; (3) maintaining the dynamism of an aging workforce; (4) reconciling the conflicting demands and needs of women, work, and families; (5) integrating black and hispanic workers fully into the economy; and improving the educational preparation of all workers. (2 tables/2 charts) (MAB)

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White House Conference on Library and Information Services 1991

Workforce 2000:

Executive Summary

Report prepared for the White House Conference
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Washington, D.C., July 9-13, 1991

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WORKFORCE 2000
EXECUTIVE SUMMARY

The year 2000 will mark the end of what has been called the American century. Since 1900, the United States has become wealthy and powerful by exploiting the rapid changes taking place in technology, world trade, and the international political order. The last years of this century are certain to bring new developments in technology, international competition, demography, and other factors that will alter the nation's economic and social landscape. By the end of the next decade, the changes under way will produce an America that is in some ways unrecognizable from the one that existed only a few years ago.

Four key trends will shape the last years of the twentieth century:

- *The American economy should grow at relatively healthy pace,* boosted by a rebound in U.S. exports, renewed productivity growth, and a strong world economy.

- Despite its international comeback, U.S. *manufacturing will be a much smaller share of the economy in the year 2000* than it is today. Service industries will create all of the new jobs, and most of the new wealth, over the next 13 years.

- *The workforce will grow slowly, becoming older, more female, and more disadvantaged.* Only 15 percent of the new entrants to the labor force over the next 13 years will be native white males, compared to 47 percent in that category today.

- *The new jobs in service industries will demand much higher skill levels* than the jobs of today. Very few new jobs will be created for those who cannot read, follow directions, and use mathematics. Ironically, the demographic trends in the workforce, coupled with the higher skill requirements of the economy, will lead to both higher and lower unemployment: more joblessness among the least-skilled and less among the most educationally advantaged.

These trends raise a number of important policy issues. If the United States is to continue to prosper--if the year 2000 is to mark the end of the *first* American century--policymakers must find ways to:

- *Stimulate Balanced World Growth:* To grow rapidly, the U.S. must pay less attention to its share of world trade and more to the growth of the economies of the other nations of the world, including those nations in Europe, Latin America, and Asia with whom the U.S. competes.

- *Accelerate Productivity Increases in Service Industries:* Prosperity will depend much more on how fast output per worker increases in health care, education, retailing, government, and other services than on gains in manufacturing.

- *Maintain the Dynamism of an Aging Workforce:* As the average age of American workers climbs toward 40, the nation must insure that its workforce and its institutions do not lose their adaptability and willingness to learn.

- *Reconcile the Conflicting Needs of Women, Work, and Families:* Three-fifths of all women over age 16 will be at work in the year 2000. Yet most current policies and institutions covering pay, fringe benefits, time away from work, pensions, welfare, and other issues were designed for a society in which men worked and women stayed home.

- *Integrate Black and Hispanic Workers Fully into the Economy:* The shrinking numbers of young people, the rapid pace of industrial change, and the ever-rising skill requirements of the emerging economy make the task of fully utilizing minority workers particularly urgent between now and 2000. both cultural changes and education and training investment s will be needed to create real equal employment opportunity.

- *Improve the Educational Preparation of All Workers:* As the economy grows more complex and more dependent on human capital, the standards set by the American education system must be raised.

The U.S. Economy in the Year 2000

Because long-range forecasts are so uncertain, alternative scenarios are useful to help to bracket a range of possible outcomes. The three scenarios presented here are based not only on different rates of economic growth, but on different policy choices.

The baseline or "surprise-free" scenario reflects a modest improvement in the rate of growth that the nation experienced between 1970 and 1985. But despite improved trends in inflation and productivity, the U.S. economy does not return to the boom time of the 1950s and 1960s. Slow labor force growth is only partly offset by faster productivity gains, and imperfect coordination between the world's governments leads to only moderate rates of world growth. Economic turbulence causes periodic recessions in the U.S. that hold total growth to just under three percent per year.

In contrast, "world deflation" focuses on the possibility that a worldwide glut of labor and production capacity in food, minerals, and manufactured products could lead to a sustained price deflation and sluggish

economic growth. World governments, chastened by a decade and a half of inflation, are slow to recognize the new economic realities and unwilling to undertake coordinated efforts to respond to them. The U.S., whose huge trade deficit has been the world's growth engine during the early 1980s, moves toward balance in its trade and fiscal accounts. Without U.S. stimulus, the rest of the world slides into a series of recessions that lead to increased protectionism and beggar-thy-neighbor trade, monetary, and fiscal policies that hold growth to only 1.6 percent per year over the period.

The third scenario, the "technology boom," outlines a powerful rebound in U.S. economic growth to levels that compare with the first two decades following World War II. Coordinated international monetary, fiscal, and trade policies succeed in smoothing world business cycles. Renewed public and private lending to developing nations and low oil prices trigger rapid growth in much of the Third World. In the U.S., high rates of investment in both physical and human capital, coupled with rapid productivity growth in services, low inflation, low resource prices, lower taxes, and less government intervention combine to produce a boom in productivity that causes the U.S. economy to surge ahead by 4 percent per year.

Table 1 summarizes that major assumptions and outcomes of the three scenarios. The table underscores several key points about the U.S. economy over the next 13 years:

century. In the baseline forecast, the U.S. grows at about 2.9 percent, compared to 3.1 percent for the world.

• *U.S. Manufacturing Employment Declines while Services Grow:* Despite strong export growth and substantial production increases, manufacturing jobs decline in all scenarios. Whether the U.S. and world economies are booming in an open trading environment or growing slowly in an atmosphere of protectionism and nationalistic trading patters, U.S. manufacturing jobs decrease. No pattern of growth enables manufacturing employment to return to the peak of 1979.

In addition to the decline in employment, manufacturing will decline as a share of GNP, measured in current dollars. Where manufacturing produced some 30 percent of all goods and services in 1955, and 21 percent in 1985, its share will drip to less than 17 percent by 2000.

The shift to services will bring with it broad changes in the location, hours and structure of work. Serve jobs tend to be located where and when the customer wants them, rather than centralized as are manufacturing jobs. Partly as a result, the typical workplace in the future will have fewer people, and the average workweek will become shorter with more people employed part-time.

The shift to services will also have great impacts on the economy and its employees. For example, the

Table 1
THE U.S. ECONOMY IN THE YEAR 2000

	1985 Level	2000 (Three Scenarios) BASE Level	BASE Change*	LOW Level	LOW Change*	HIGH Level	HIGH Change*
World GDP (bill. 82$)	7745	12204	3.1%	9546	1.4%	13057	3.5%
U.S. GNP (bill. 82$)	3570	5463	2.9%	4537	1.6%	6431	4.0%
GNP Deflator (1982-100)	111.7	182.4	3.3%	117.8	0.4%	196.4	3.8%
Employment (millions)	107.2	131.0	1.3%	122.4	0.9%	139.9	1.8%
Manufacturing	19.3	17.2	-0.8%	18.0	-0.4%	18.1	-0.4%
Commercial & Other Services	62.0	84.3	2.1%	76.5	1.4%	88.7	2.4%
Productivity (output/worker,82$)	33.3	41.7	1.5%	37.1	0.7%	46.0	2.2%
Manufacturing	40.4	71.4	3.9%	58.0	2.5%	81.3	4.8%
Commercial & Other Services	29.9	34.1	0.9%	30.4	0.1%	38.2	1.6%
Fed. Surplus (bill. curr.$)	-200.8	-110.0	—	-170.1	—	-40.7	—
Curr. Acct. Bal. (bill. curr.$)	-116.8	14.0	—	12.5	—	32.6	—
Disp. Income Per Capita (thou. 82$)	10.5	13.5	1.7%	11.5	0.6%	15.6	2.7%

*Average Annual Gain
Source: Hudson Institute.

• *U.S. Growth and World Growth are Tightly Linked:* The strong historical correlation between world growth and U.S. growth continues through the balance of the business cycle should moderate, since service industry growth is less volatile than manufacturing. Wages may become less equally distributed, since service jobs tend

have more high and low earners, and fewer in the middle. Economic growth may be harder to achieve, because productivity gains are lower in most service industries.

Most importantly, the shift to services means that efforts to preserve or develop the nation's manufacturing base are swimming upstream against a powerful tide. Productivity gains, not Japanese competition, will gradually eliminate manufacturing jobs. Lower prices (relative to services) will gradually shrink manufacturing's share of the economy. Just as agriculture lost its central role in the American economy at the beginning of the century, so will manufacturing lose economic importance as the century draws to a close. Those who fail to recognize these inevitable trends–for example, states that try to capture new factories to boost their local economies or the Congress, which is threatening to legislate trade barriers to hang on the U.S. manufacturing jobs–will miss the most important opportunities of the future.

• *The Key to Domestic Economic Growth is a Rebound in Productivity, Particularly in Services:* Throughout the 1970s and early 1980s, the Unites States managed to sustain a rising standard of living by increasing the number of people at work and by borrowing from abroad and from the future. These props under the nation's consumption will reach their limits before the end of the century: there will be relatively fewer young people and homemakers who will enter the workforce during the 1990s, and the burden of consumer, government, and international debt cannot be expanded indefinitely. If the U.S. economy is to grow at its historic 3 percent per year average, the nation must substantially increase its productivity.

Output per worker during the 1990s is projected to double, from 0.7 percent per year to 1.5 percent, the same rate as the 1960s. a combination of older, more stable, and better–educated workers, and higher rates of investment will support this improvement. Better productivity performance by the service industries will be particularly important. Output per worker in manufacturing continues to show strong gains, but the most important productivity improvements come in services, where output per worker climbs from –0.2 percent over the last 15 years to +0.9 percent per year from 1985 to 2000. The keys to such advances will be more competition in traditionally noncompetitive industries such as education, health care, and government services, coupled with the application of advanced technologies to deliver more automated business, government, and personal services.

• *U.S. Trade Account Move Toward Balance:* Although the different scenarios show widely dispersed rates of growth of imports and exports, the U.S. current account balance improves under all conditions. This is due both to the devaluation of the dollar that has already taken place against other currencies and to improving productivity in manufacturing industries. Under the baseline scenario, by the year 2000 the U.S. current account balance is in the black by some $14 billion.

• *The U.S. Budget Deficit Declines:* Along with the improvement in the trade deficit comes a decline in the budget deficit. Even without any major tax increases, growth in GNP and a large surplus in the Social Security Trust Fund cut the federal budget deficit to $18 billion by 1995.

• *Inflation Moderates:* Under the baseline scenario, prices increase by an average of 3.3 percent per year over the 1985–2000 period. The excess world capacity in labor, goods, and services prevents inflation from resuming its pace of the 1970s.

• *Unemployment Remains Stubbornly High:* The baseline scenario forecasts unemployment at just over 7 percent in the year 2000, despite the relatively slow growth of the labor force projected over the period. In the deflation scenario, unemployment climbs above 9 percent, while even in the boom scenario unemployment is reduced only to 5.9 percent.

• *Disposable Income Increases Moderately:* Disposable personal income per person, the best single measure of how rapidly society is improving its standard of living, grows by 1.7 percent per year under the baseline scenario, almost precisely the rate at which it grew between 1970 and 1985.

Workers and Jobs in the Year 2000

Changes in the economy will be matched by changes in the workforce and the jobs it will perform. Five demographic facts will be most important:

• *The population and the workforce will grow more slowly than at any time since the 1930s:* Population growth, which was climbing at almost 1.9 percent per year in the 1950s, will slump to only 0.7 percent per year by 2000; the labor force, which exploded by 2.9 percent per year in the 1970s, will be expanding by only 1 percent annually in the 1990s. These slow growth rates will tend to slow down the nation's economic expansion and will shift the economy more toward income–sensitive products and services (e.g., luxury goods and convenience services). It may also tighten labor markets and force employers to use more capital–intensive production systems.

• *The average age of the population and the workforce will rise, and the pool of young workers entering the labor market will shrink:* As the baby boom ages, and the baby bust enters the workforce, the average age of the workforce will climb from 36 today to 39 by the year 2000. The number of young workers age 16–24 will drop by almost 2 million, or 8 percent. This decline in young people in the labor force will have both positive and negative impacts. On the one hand, the older workforce will be more experienced, stable, and reliable. The reverse side of this stability will be a lower level of adaptability. Older workers, for example, are less likely to move, to change occupations, or to

undertake retraining than younger ones. Companies that have grown by adding large numbers of flexible, lower-paid young workers will find such workers in short supply in the 1990s.

• *More women will enter the workforce:* Almost two-thirds of the new entrants into the workforce between now and the year 2000 will be women, and 61 percent of all women of working age are expected to have jobs by the year 2000. Women will still be concentrated in jobs that pay less than men's jobs, but they will be rapidly entering many higher-paying professional and technical fields. In response to the continued feminization of work, the convenience industries will boom, with "instant" products and "delivered-to-the-door" service becoming common throughout the economy. Demands for day care and for more time off from work for pregnancy leave and child-rearing duties will certainly increase, as will interest in part-time, flexible, and stay-at-home jobs.

• *Minorities will be a larger share of new entrants into the labor force:* Non-whites will make up 29 percent of the new entrants into the labor force between now and the year 2000, twice their current share of the workforce. Although this large share of a more slowly growing workforce might be expected to improve the opportunities for these workers, the concentration of blacks in declining central cities and slowly growing occupations makes this sanguine outlook doubtful.

• *Immigrants will represent the largest share of the increase in the population and the workforce since the first World War:* Even with the new immigration law, approximately 600,000 legal and illegal immigrants are projected to enter the United States annually throughout the balance of the century. Two-thirds or more of immigrants of working age ar likely to join the labor force. In the South and West where these workers are concentrated, they are likely to reshape local economies dramatically, promoting faster economic growth and labor surpluses.

In combination, these demographic changes will mean that the new workers entering the workforce between now and the year 2000 will be much different from those who people it today. Non-whites, women, and immigrants will make up more than five-sixths of the net additions to the workforce between now and the year 2000, though they make up only about half of it today:

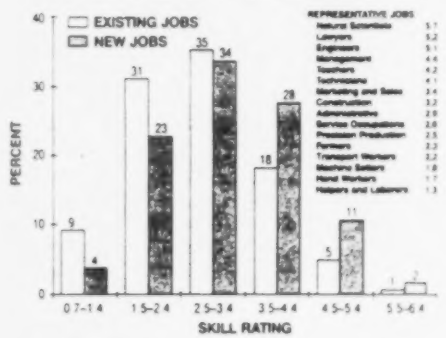
	1985 Labor Force	Net New Workers, 1985-2000
Total	115,461,000	25,000,000
Native White Men	47%	15%
Native White Women	36%	42%
Native Non-white Men	5%	7%
Native Non-white Women	5%	13%
Immigrant Men	4%	13%
Immigrant Women	3%	9%

Source: Hudson Institute.

Juxtaposed with these changes in the composition of the workforce will be rapid changes in the nature of the job market. The fastest-growing jobs will be in professional, technical, and sales fields requiring the highest education and skill levels. Of the fastest-growing job categories, all but one, service occupations, require more than the median level of education for all jobs. Of those growing more slowly than average, not one requires more than the median education.

Ranking jobs according to skills, rather than education, illustrates the rising requirements even more dramatically. When jobs are given numerical ratings according to the math, language, and reasoning skills they require, only twenty-seven percent of all new jobs fall into the lowest two skill categories, while 40 percent of new jobs are in the three highest skill groups, compared to only 24 percent of current jobs (See Figure 1).

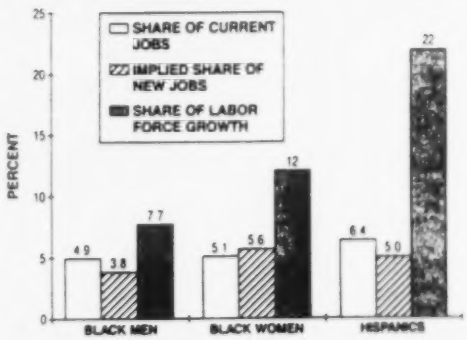
Figure 1
LOW SKILLED JOBS ARE DECLINING



Source: Hudson Institute

The changes ahead in the job market will affect different groups in the society in different ways. While young whites may find their jobs prospects improving, for black men and Hispanics the job market will be particularly difficult (see Figure 2).

Figure 2
BLACK MEN AND HISPANICS FACE THE GREATEST DIFFICULTIES IN THE EMERGING JOB MARKET



In contrast to their rising share of the new entrants into the labor force, black men will hold a declining fraction of all jobs if they simply retain existing shares of various occupations. Black women, on the other hand, will hold

a rising fraction of all jobs, but this increase will be less than needed to offset their growing share of the workforce.

Six Policy Challenges

These trends in the emerging economy suggest six policy issues that deserve the greatest attention:

Stimulating World Growth: For more than a decade, American policymakers have been concerned with the U.S. balance of trade, the nation's deteriorating ability to compete with other nations, and the presumed unfairness of the trading policies of other countries. These issues, while important, are not the most critical international concerns facing the nation. U.S. prosperity between now and the end of the century will depend primarily on how fast the world economy grows and on how rapidly domestic productivity increases. It will depend very little on how open or closed the Japanese market is to American goods, or even on how soon U.S. trade accounts return to balance.

In particular, it is important for the United States, along with other industrial counties, to find ways to restimulate growth in the developing world. These nations that are still on the threshold of industrialization have the greatest opportunities for rapid growth that can stimulate the world and U.S. economies.

At the same time, efforts to improve U.S. competitiveness must always be undertaken within the context of strengthening the world economy. The envy and anger that many in the United States feel toward Japan's success should not blind policymakers to the reality that as Japan (and every other nation of the world) grows richer, the United States will benefit. Just as it is easier for a company to prosper in a rapidly-growing world market than to capture market share in a shrinking one, so it will be easier for the United States to prosper in rapidly-growing world markets than in static or shrinking ones.

Of course, the U.S. *share* of world growth is also important. But most of the steps that must be taken to improve U.S. competitiveness have little to do with changing the behavior of the Japanese or the Koreans. Instead, they involve changes in the propensity of Americans to borrow and spend rather than to save, major improvements in the educational preparation of large numbers of prospective workers, and reforms in the practices and laws that encourage America's best and brightest to provide legal advice in corporate takeovers rather than to build companies that exploit new technologies.

Improving Productivity in Service Industries: Manufacturing still controls the imagination, the statistics, and the policies of the nation, even though it now represents a small and shrinking fraction of national employment and output. The nation's mental image of progress continues to be one in which manufacturing plants produce more cars, computers, and carpets per hour. But services are a far larger segment of the economy and the sector whose productivity has actually declined in recent years. These industries--health, education, trade, finance, insurance, real estate, and government--must be the targets of government efforts to improve productivity.

To realize this objective, new efforts must be made to tear down the barriers to competition in many of the service industries where completion does not now exist. At the same time, new investments must be made in research and development targeted toward improving service industry productivity.

In education, for example, competition is needed at the elementary and secondary school level, where the monopoly position of the public schools has stifled innovation. In order to provide a benchmark for measuring gains, national standards and nationally comparable tests are essential. At the same time, new investments are needed in educational technology, in particular to develop a large base of public domain software to teach math, reading, science, and more advanced courses.

In health care, the steps taken to inject completion into the system must be extended, while new investments are made in productivity-enhancing technologies such as automated diagnostics. In a range of other government services, privatization and competition promise to provide great productivity gains.

Improving the Dynamism of an Aging Workforce: At the same time that the workforce is aging and becoming less willing to relocate, retrain, or change occupations, the economy is demanding more flexibility and dynamism. Despite general recognition of the importance of a flexible workforce, many national policies fail to promote this end.

For example, the nation's pension system is one in which most retirement benefits are tied to the job. In many cases, employees receive no benefits if they leave after a few years, and, by the time they reach mid-career, they would suffer major benefit losses if they switched employers. The current system tends to inhibit workers from changing jobs and to discourage companies from hiring older workers.

Similarly, the unemployment insurance system has been largely used to provide income support to workers who are laid off. Relatively little has been done to make the system one that promotes relocation, retraining, and job search.

Although worker retraining has become a catchphrase, and the federal government and private industry now spend billions of dollars for retraining, there is still no national consensus that all workers should expect to learn new skills over the course of their worklives. Except in a few companies, training is confined mostly to the top and bottom ranks of employees, with little systematic effort to insure that all workers are constantly reinvesting in themselves to avoid obsolescence. National policies that promote such corporate and individual attitudes toward retraining should be backed up with changes in the tax code to encourage lifelong education.

Finally, the goal of promoting dynamism requires reconsideration of national policies on immigration. The most careful studies of legal immigrants have concluded that they are a valuable asset to the nation and

help to stimulate economic growth and change. The need for more, better-educated immigrants to help staff a growing economy will increase as the growth of the population and labor force slows in the 1990s. Despite the political and social objections, the nation should begin a program of gradually increasing its quotas and opening its doors to more individuals desiring to enter the country.

Reconciling the Demands of Women, Work, and Families: America has become a society in which everyone is expected to work—including women with young children. But many of society's institutions were designed during an era of male breadwinners and female homemakers.

What is needed is a thoroughgoing reform of the institutions and policies that govern the workplace, to insure that women can participate fully in the economy, and that men and women have the time and resources needed to invest in their children. For example, some formula is needed to provide parents with more time away from work. Flexible hours, the use of sick leave to care for children, more part-time work, pregnancy leaves for mothers and fathers, and other innovations are expensive, but ultimately necessary changes in the structure of work that will accommodate the combination of work and family life. Similarly, the need for high-quality day care has not yet been fully addressed. Government and private mechanisms to provide for the care of the children of working parents need further development.

The increase in the numbers of working women also has implications for the current debate over welfare reform. The current stay-at-home welfare program was designed long before most women worked. Now that a majority of nonwelfare women with young children work, it no longer seems cruel to require welfare mothers to do so. The current system should be replaced with one that mandates work for all able-bodied mothers (except for those caring for infants), while providing training, day care, and job counseling.

Integrating Blacks and Hispanics Fully into the Workforce: For minority workers, the changes in the nation's demography and economy during the 1990s represent both a great risk and a great opportunity. With fewer new young workers entering the workforce, employers will be hungry for qualified people and more willing to offer jobs and training to those they have traditionally ignored. At the same time, however, the types of jobs being created by the economy will demand much higher levels of skill than the jobs that exist today. Minority workers are not only less likely to have had satisfactory schooling and on-the-job training, they may have language, attitude, and cultural problems that prevent them from taking advantage of the jobs that will exist.

If the policies and employment patterns of the present continue, it is likely that the demographic opportunity of the 1990s will be missed and that by the year 2000 the problems of minority unemployment, crime, and dependency will be worse than they are today. Without substantial adjustments, blacks and Hispanics will have a smaller fraction of the jobs of the year 2000 than they have today, while their share of those seeking work will have risen.

Each year of delay in seriously and successfully attacking this problem makes it more difficult. Not only will the jobs become more sophisticated and demanding, but the numbers of new workers entering the workforce will begin to increase after 1993. Now is the time to begin investing in education, training, and other assistance. These investments will be needed, not only to insure that employers have a qualified workforce in the years after 2000, but to finally deliver the equality of opportunity that has been America's great unfulfilled promise.

Improving Workers' Education and Skills: As the economies of developed nations move further into the post-industrial era human capital plays an ever-more-important role in their progress. As the society becomes more complex, the amount of education and knowledge needed to make a productive contribution to the economy becomes greater. A century ago, a high school education was thought to be superfluous for factory workers and a college degree was the mark of an academic or a lawyer. Between now and the year 2000, for the first time in history, a majority of all new jobs will require post-secondary education.

Education and training are the primary systems by which the human capital of a nation is preserved and increased. The speed and efficiency with which these education systems transmit knowledge governs the rate at which human capital can be developed. Even more than such closely-watched indicators as the rate of investment in plant and equipment, human capital formation plays a direct role in how fast the economy can grow.

If the economy is to grow rapidly and American companies are to reassert their world leadership, the educational standards that have been established in the nation's schools must be raised dramatically. Put simply, students must go to school longer, study more, and pass more difficult tests covering more advanced subject matter. There is no excuse for vocational programs that "warehouse" students who perform poorly in academic subjects or for diplomas that register nothing more than years of school attendance. From an economic standpoint, higher standards in the schools are the equivalent of competitiveness internationally.

Promoting world growth, boosting service industry productivity, stimulating a more flexible workforce, providing for the needs of working families with children, bringing minority workers into the workforce, and raising educational standards are not the only items on the nation's agenda between now and the year 2000. But they are certainly among the most important.

More critically, they are issues that will not go away by themselves. If nothing unusual is done to focus national attention and action on these challenges, they are likely to be still unresolved at the beginning of the next century. By addressing them now, the nation's decisionmakers can help to assure that the economy and the workforce fulfill their potential to make the year 2000 the beginning of the next American century.